



August 15, 2002

Mr. William F. Stephens, Director
Division of Energy Regulation
State Corporation Commission
1300 E. Main Street
Tyler Building
Richmond, Virginia 23219

Re: Default Service Requirements

Dear Mr. Stephens:

Thank you for your letter of June 10, 2002 concerning requirements for default service under § 56-585 of the Virginia Electric Utility Restructuring Act ("Act"). As you correctly point out, the Commission must establish the elements of default service and may designate an entity other than an incumbent electric utility ("distributor") to provide some or all of the elements of default service. Subsection 56-585 A of the Act contemplates that both the elements of default service and programs to provide default service will be established by January 1, 2004.

Appalachian Power Company, d/b/a American Electric Power ("AEP" or "Company") appreciates this opportunity to participate in the development of default service programs under the Act. The issues raised by the default service section of the Act are many and complex, and they will require collaboration and cooperation by the interested parties. Careful consideration can be expected to lead to a balanced approach which will ensure fairness to customers and distributors, as well as other suppliers that may have an interest in providing default service. AEP looks forward to working with the other interested parties in this effort.

In regard to your first inquiry, AEP's view is that the Commission should begin to identify default service providers other than distributors and develop programs that would encourage those providers to enter Virginia. The provisions of § 56-585 of the Act, as recently and painstakingly modified by the General Assembly, also make clear, however, that the Commission may mandate that a distributor provide default service within its certificated service territory at the capped generation rate established under § 56-582 A 2 until July 1, 2007. It is important, therefore, that the Commission adopt balanced programs to govern default service. Those programs should be designed to attract non-distributor default service providers. However, they must avoid results that would leave the distributor to provide default service to a remaining group of customers at capped rates that do not reflect fully the costs of serving those customers as a stand-alone group.

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The second question in your letter solicits expressions of interest in providing default service. The Company has no specific information about the interests of non-distributors in providing default service in Virginia. AEP must stand ready to provide default service to its Virginia customers as may be required of it as distributor under the Act. This is a significant service obligation for the Company, and accordingly, it does not currently intend to provide default service outside of its existing franchised service territory in Virginia (questions four and six in your letter).

Questions three and four in your letter also raise questions concerning the conditions under which a bidding process for default service requirements would be conducted. The most important action the Commission can undertake now is to establish clearly, in an orderly and systematic way, default service requirements in order to define for non-distributor providers the essential components of default service and the obligations on which they are to submit competitive bids. These requirements will necessarily develop over the course of discussions among the stakeholders.

The Commission should also concentrate initially on default service for customers who wish to choose and cannot find an alternative generation supplier and customers whose alternative supplier fails to perform. The third category of default service customers – those who have not sought affirmatively to choose a generation supplier – are also entitled to continue their current capped rate service from the distributor until capped rates expire or are terminated. There is no need for immediate action to establish specific default protections for customers who have not yet exercised their right to choose.

The Commission has adequate authority to establish the elements of default service and the bidding process to be used to establish programs for default service by non-distributor providers under the current provisions of the Act (question five in your letter). For its part, the Commission should develop default service requirements that (1) identify non-distributor providers of default service and encourage their entry into a Virginia default service market; (2) define the elements of default service which such a non-distributor provider must offer; and (3) create a competitive bidding process to be used by non-distributors to procure default service rights in Virginia.

Thank you for the opportunity to provide these preliminary comments. The Company looks forward to its further participation in the development of default service programs in Virginia.

Sincerely,

A handwritten signature in cursive script that reads "Barry L. Thomas/cde".

Barry L. Thomas, Director
Regulatory Services VA/TN